

## Message Text

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PAGE 01     WARSAW 02653 01 OF 02 020403Z  
ACTION EB-08

INFO OCT-01 ISO-00 AID-05 CIAE-00 FRB-03 INR-10  
NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03 SP-02  
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FM AMEMBASSY WARSAW  
TO SECSTATE WASHDC 4191  
USDOC WASHDC  
INFO AMEMBASSY BELGRADE  
AMEMBASSY BERLIN  
AMEMBASSY BUCHAREST  
AMEMBASSY BUDAPEST  
AMEMBASSY LONDON  
AMEMBASSY MOSCOW  
AMEMBASSY PARIS  
AMEMBASSY PRAGUE  
AMEMBASSY SOFIA  
AMEMBASSY TOKYO  
AMCONSUL KRAKOW POUCH  
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LIMITED OFFICIAL USE SECTION 1 OF 2 WARSAW 2653

PLEASE PASS EXIM BANK AND TREASURY

C O R R E C T E D C O P Y F O R P A R A F O U R

EO 11652N/A  
TAGS: ETRD, EFIN, EIND, EXIM, PL, US  
SUBJ: THE NEW EXIM BANK POSTURE AND POLAND

REF: A. STATE 070331, B. STATE 014670

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PAGE 02     WARSAW 02653 01 OF 02 020403Z

1. SUMMARY. EMBASSY WARSAW APPLAUDS THE NEW, POSITIVE POSTURE  
BEING TAKEN BY EXIM BANK TO SUPPORT AMERICAN EXPORTS AND TO ACT  
AGAINST VIOLATIONS OF THE OECD "GENTLEMEN'S AGREEMENT" ON TERMS  
AND INTEREST RATES. IN POLAND COMPETITIVE US FINANCING, OR THE  
LACK OF IT, HAS REPEATEDLY BEEN THE KEY FACTOR DETERMINING WHETHER  
US FIRMS WIN OR LOSE EXPORT CONTRACTS AGAINST AGGRESSIVE JAPANESE  
AND WEST EUROPEAN COMPETITION. DURING THE NEXT FEW MONTHS US FIRMS

WILL BE BIDDING ON TWO MAJOR CAPITAL EQUIPMENT PROJECTS HERE -- THE KATOWICE COLD ROLLING MILL AND THE PILA SYNTHETIC FIBER COMPLEX. THEY TOTAL ABOUT ONE BILLION DOLLARS IN CONTRACT VALUE AND, IF OBTAINED, WILL MEAN HUNDREDS OF MILLIONS OF DOLLARS WORTH OF EXPORT SALES FOR AMERICAN INDUSTRY AND MANY HUNDREDS OF JOBS FOR AMERICAN WORKERS.

2. EXIM'S WILLINGNESS BOTH TO INCREASE ITS EXPOSURE IN POLAND AND TO PROVIDE STRONG, "BEST OFFERED" FINANCING WILL BE ESSENTIAL IF US FIRMS ARE TO PREVAIL. WE REALIZE THAT THE LEVEL OF POLISH INDEBTEDNESS, THE LACK OF CLARITY IN IDENTIFYING WHICH PROJECTS WOULD BE REALIZED UNDER THE NEW FIVE YEAR PLAN, AND SOME INDICATIONS FROM THE FINANCE MINISTRY THAT POLAND WILL NOT SEEK NEW, LARGE EXIM CREDITS, HAVE LED EXIM TO RECONSIDER ITS POLICY TOWARD POLAND. HOWEVER, GIVEN THE IMPORTANCE OF FINANCIAL TERMS IN WINNING THESE LARGE CONTRACT, WE HOPE THAT EXIM WILL BE AS FORTHCOMING AS POSSIBLE IN RESPONDING TO THE REQUESTS FOR CREDIT COMMITMENTS WHICH

IT WILL BE RECEIVING IN THE NEXT FEW MONTHS. OUR APPROACH SHOULD, OF COURSE, BE CONSISTENT WITH OUR REQUEST FOR ADDITIONAL ECONOMIC INFORMATION FROM THE GOP AND OUR CONSIDERATION OF POLISH REQUESTS FOR GRAIN CREDITS. WE SHOULD NOT FORGET THAT OTHER WESTERN GOVERNMENT CREDIT ORGANIZATIONS ARE READY, EVEN EAGER, TO LEND TO POLAND IN SUPPORT OF EXPORTS.

3. THE MAY 15-16 MEETINGS IN WASHINGTON OF THE US-POLISH ECONOMIC LIMITED OFFICIAL USE

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PAGE 03    WARSAW 02653 01 OF 02 020403Z

COUNCIL, AND THE SUBSEQUENT SESSION OF THE JOINT INDUSTRIAL COOPERATION/BUSINESS FACILITATION WORKING GROUP, SHOULD PROVIDE A GOOD OPPORTUNITY TO INFORM POLISH OFFICIALS OF THE EFFECTS OF EXIM'S NEW ORIENTATION ON THESE PROJECTS AND US-POLISH TRADE. THE EMBASSY WOULD WELCOME ANY QUESTIONS WHICH EXIM WISHES TO HAVE POSED TO POLISH OFFICIALS DURING DISCUSSIONS IN PREPARATION FOR THOSE MEETINGS. END SUMMARY.

4. EMBASSY WARSAW WARMLY WELCOMES THE NEW, MORE POSITIVE POSTURE WHICH EXIM BANK IS NOW TAKING FOR THE SUPPORT AND FACILITATION OF AMERICAN EXPORTS AS OUTLINED BY EXIM BANK DIRECTOR DONALD STINGEL IN REF A. WE ARE GIVING THE FULLEST POSSIBLE PUBLICITY ON EXIM'S NEW INITIATIVES TO POLISH FOREIGN TRADE ORGANIZATIONS AND INDUSTRIAL MINISTRIES. MANY OF THEM WILL BE PARTICULARLY INTERESTED BECAUSE THE COMPETITIVENESS OF AMERICAN FINANCING IS OFTEN THE KEY, PIVOTAL FACTOR IN DETERMINING WHETHER AMERICAN FIRMS RECEIVE POLISH CONTRACTS IN BIDDING AGAINST CUTTHROAT COMPETITION FROM JAPAN AND WEST EUROPEAN FIRMS. IN FACT, WE BELIEVE POLISH PERCEPTION OF UNCOMPETITIVE TERMS FROM EXIM WAS A PRIMARY REASON BEHIND FINANCE MINISTER KISIEL'S DECEMBER, 1977, STATEMENT THAT THE GOP WOULD NOT REQUEST LARGE EXIM CREDITS BEFORE 1980.

5. THE STATEMENT THAT EXIM "WILL NOT REMAIN PASSIVE IN RESPONSE  
TO PERCEIVED VIOLATIONS OF THE OECD-NEGOTIATED 'GENTLEMEN' AGREEMENT

,  
ON TERMS AND INTEREST RATES" IS PARTICULARLY WELCOME NEWS.  
HERE IN POLAND, A SEEMINGLY OPEN-ENDED JAPANESE CREDIT LINE  
ALLEGEDLY EXTENDED "SEVERAL YEARS AGO" AND, OF COURSE,  
BEFORE THE SO-CALLED "OECD GENTLEMEN' AGREEMENT", GIVES JAPANESE  
FIRMS GOVERNMENT-GUARANTEED FINANCING AT A SEVEN AND ONE-HALF  
PERCENT INTEREST RATE FOR VIRTUALLY ALL OF CONTRACT PRICES.  
AND WE CURRENTLY HAVE ONE AMERICAN FIRM  
(PULLMAN-SWINDELL) NEGOTIATING AGAINST FRENCH COMPETITION WHICH  
OFFERS A SEVEN AND ONE-HALF PERCENT INTEREST RATE FOR MOST OF  
THE CONTRACT, PLUS WHAT IS TERMED AN ADDITIONAL AMOUNT OF "PRIVATE  
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PAGE 04      WARSAW 02653 01 OF 02 020403Z

CREDIT." TOGETHER, THESE FRENCH CREDITS AMOUNT TO AN OFFER OF  
LOW-COST CREDIT FOR ONE HUNDRED AND TEN PERCENT OF THE VALUE OF  
THE PROJECT.

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PAGE 01      WARSAW 02653 02 OF 02 311554Z

ACTION EB-08

INFO OCT-01 ISO-00 AID-05 CIAE-00 FRB-03 INR-10  
NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02  
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FM AMEMBASSY WARSAW

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INFO AMEMBASSY BELGRADE

AMEMBASSY BERLIN

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AMEMBASSY BUDAPEST

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LIMITED OFFICIAL USE SECTION 2 OF 2 WARSAW 2653

6. NOW ON THE HORIZON, HOWEVER, ARE TWO VERY LARGE POLISH PROJECTS IN THE EARLY STAGES OF NEGOTIATION WHICH ARE VALUED AT ABOUT ONE BILLION U.S. DOLLARS AND COULD MEAN SEVERAL HUNDRED MILLION DOLLARS IN EXPORT SALES FOR U.S. FIRMS OVER THE NEXT FEW YEARS. FOREIGN COMPETITION -- JAPANESE, GERMAN, FRENCH, BRITISH -- IS INTENSE. THE TWO CONTRACTS, IF AWARDED TO U.S. FIRMS, WOULD PROBABLY REQUIRE AN INCREASE OF OVER \$300 MILLION IN U.S. EXIM FINANCING FOR POLAND AND HENCE A SIGNIFICANT RISE IN EXIM'S PRESENT CEILING FOR THIS COUNTRY. WE BELIEVE THAT FOR BOTH AMERICAN TECHNOLOGY HAS A DEFINITE, DECISIVE EDGE OVER THAT LIMITED OFFICIAL USE

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PAGE 02 WARSAW 02653 02 OF 02 311554Z

OFFERED BY FOREIGN COMPETITORS. HENCE, U.S. FINANCING, COMPETITIVE, BEST-OFFERED, EXIM-BACKED FINANCING, COULD TIP THE SCALE IN FAVOR OF AMERICAN FIRMS AND MEAN INCREASED U.S. EXPORTS AND MORE JOBS FOR AMERICAN LABOR.

7. THE TWO PROJECTS ARE:

A. A COLD ROLLING MILL FOR THE HUTA KATOWICE STEEL COMPLEX. CAPACITY WILL BE TWO MILLION TONS PER YEAR. THE MILL WILL COMPLEMENT A HOT STRIP MILL NOW BEING BUILT AT KATOWICE BY THE USSR AND WHICH IS TO BE OPERATIONAL BY 1980. A CONSORTIUM OF U.S. FIRMS LED BY U.S. STEEL AND INCLUDING MESTA, INC. OF PITTSBURGH, PRODUCTION MACHINERY OF MENTOR, OHIO, AND GENERAL ELECTRIC, IS NOW PREPARING BIDS FOR THE POLISH FOREIGN TRADE ORGANIZATION FIRM CENTROZA.

CONSORTIUM REPRESENTATIVES VISITED THE EMBASSY TO DISCUSS NEGOTIATIONS ON MARCH 17. A FULL TECHNICAL PROPOSAL MUST BE SUBMITTED BY JUNE 30 AND A COMMERCIAL PROPOSAL BY JULY 31. KNOJP COMPETITION IS NIPPON STEEL, NIPPON-KOKKAN STEEL AND HITACHI-DEMAG (A JAPANESE-GERMAN CONSORTIUM). THIS CONTRACT WOULD, WE UNDERSTAND, INCLUDE A MINIMUM OF \$250 MILLION IN EXPORTS OF 100 PERCENT U.S. ORIGIN.

B. THE PILA SYNTHETIC FIBERS PLANT VALUED AT OVER \$500 MILLION. FLUOR, CHEMTEx, AND MANNESMAN (GERMAN), WITH DU PONT TECHNOLOGY, ARE FACING FIERCE COMPETITION FROM JAPANESE, BRITISH, AND FRENCH CONSORTIA FOR THIS PROJECT. A COUNSELOR TO PLANNING COMMISSION CHAIRMAN WRZASZCZYK HAS TOLD US IT IS DEFINITELY IN THE PLAN AND WILL PROBABLY BE SIGNED THIS YEAR. BANK HANDLOWY VICE PRESIDENT WOLOSZYN HAS CONFIRMED THIS INFORMATION, AND WE UNDERSTAND THAT HANDLOWY MAY BE ASKING EXIM FOR A PRELIMINARY COMMITMENT SHORTLY. FLUOR OFFICIALS HAVE TOLD US THAT ABOUT ONE-THIRD OF THE EQUIPMENT

FOR PILA WOULD BE SOURCED IN THE U.S. THE CONSORTIA HOPES THAT EXIM CAN FINANCE A CORRESPONDING SHARE. MANNESMAN WILL BE RESPONSIBLE FOR RAISING MOST OF THE FINANCING FROM GERMAN SOURCES. LIMITED OFFICIAL USE

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PAGE 03      WARSAW 02653 02 OF 02 311554Z

FEES TO BE EARNED ON DU PONT TECHNOLOGY GIVE US AN ADDED INTEREST IN ASSURING THE COMPETITIVENESS OF AMERICAN FINANCING.

8. THESE TWO PROJECTS HAVE 19P, A1 INVESTMENT PRIORITY IN POLAND, EVEN THOUGH THE COUNTRY IS CUTTING BACK SHARPLY ON HARD-CURRENCY IMPORTS IN A CONCERTED EFFORT TO REDUCE EXTERNAL INDEBTEDNESS. THE KATOWICE STEEL MILL, WHICH WILL BE THE COUNTRY'S LARGEST, IS NEARING COMPLETION OF PHASE I. THE PILA POLYESTER FIBER PLANT IS, AS INDICATED ABOVE, INCLUDED IN THE CURRENT FIVE-YEAR PLAN. FOR BOTH PROJECTS WESTERN SUPPLIERS MUST AGREE TO VERY SUBSTANTIAL BUY-BACK ARRANGEMENTS WHICH ARE AN INTEGRAL ELEMENT IN POLAND'S PLANS FOR HOLDING DOWN ON HARD-CURRENCY EXPENDITURES. THE U.S. FIRMS INVOLVED HAVE MADE FULL ALLOWANCE FOR THIS AND HAVE ASSURED THAT BUY-BACK PURCHASES WOULD NOT BE RESTRICTED TO SALE IN THE U.S. MARKET. MANNESMAN, IN FACT, WOULD HANDLE THE BUY-BACK UNDER THE PILA PROJECT AND WOULD PRESUMABLY MARKET MOST OF THE PRODUCT IN EUROPE.

9. IN CONCLUSION, WE STRESS ONCE AGAIN THE PARAMOUNT IMPORTANCE WHICH COMPETITIVE U.S. FINANCING PLAYS IN POLAND AND, WE SUSPECT, IN OTHER COUNTRIES AS WELL. AMERICAN QUALITY, KNOW-HOW AND TECHNOLOGY ARE WIDELY ADMIRERD AND WANTED HERE. IN A NUMBER OF CASES POLISH OFFICIALS, AND ESPECIALLY TECHNICAL PERSONNEL, HAVE QUIETLY TOLD US THEY WOULD PREFER TO HAVE AMERICAN EQUIPMENT RATHER THAN GERMAN OR JAPANESE. BUT THE STUMBLING-BLOCK IN THIS FOREIGN-EXCHANGE STARVED COUNTRY HAS ALWAYS BEEN EXPENSIVE AMERICAN FINANCING AND INSISTENCE BY POLISH BANKING AND FINANCE MINISTRY OFFICIALS THAT POLAND BUY WHERE THE COST IS LOWEST.

10. A SMALL BUT DRAMATIC EXAMPLE OF HOW FLEXIBLE, AGGRESSIVE EXIM COMPETITION CAN WIN EXPORT ORDERS FOR THE UNITED STATES RECENTLY OCCURRED HERE IN GENERAL ELECTRIC'S BIDDING FOR A \$12 MILLION SALE OF AUTOMATION EQUIPMENT FOR KATOWICE. COMPETING JAPANESE PRICES WERE ONE MILLION DOLLARS BELOW THE GE PRICE, AND JAPAN'S EXIM BANK OFFERED ITS STANDARD SEVEN AND ONE-HALF PERCENT INTEREST RATE, COMPARED WITH AN EXIM RATE OF EIGHT LIMITED OFFICIAL USE

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PAGE 04      WARSAW 02653 02 OF 02 311554Z

PERCENT. BUT GE WON THE DEAL BECAUSE (A) POLISH ENGINEERS PREFERRED SUPERIOR US TECHNOLOGY AND (B) EXIM CHAIRMAN MOORE EXTENDED EXIM'S FINANCING TO COVER EIGHTY-FIVE PERCENT OF THE

VALUE OF THE CONTRACT. EXIM'S LAST-MINUTE ACTION WON THE CONTRACT AND OPENED UP SEVERAL HUNDRED JOBS FOR AMERICAN WORKERS AT GE'S PLANT NEAR ROANOKE, VIRGINIA.

11. ACTION REQUESTED: THE EMBASSY WOULD APPRECIATE EXIM BANK'S PRELIMINARY ESTIMATE ON THE POSSIBILITIES OF RAISING THE CREDIT LINE CEILING FOR POLAND SO AS TO PERMIT STRONG U.S. FINANCING FOR THE KATOWICE AND PILA PROJECTS.  
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## Message Attributes

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